

Corporate Governance

The Group complied with the Code on Corporate Governance Practices (“the Code”) set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) for the Year. The Board confirms that there were no deviations from or non-compliance with the code provisions of the Code during 2006, except that the official position of the chief executive officer (“CEO”) did not exist in the Group. Mr. Feng Guangcheng, who apart from being the major shareholder and chairman of the Company and the Group, also assumed responsibilities which are comparable to those of a CEO at the Group level. Mr. Feng was responsible for making decisions, executing the decisions of the Board and overseeing the daily operations of the Group. Two different general managers were respectively in charge of the daily operation of the Group’s two major divisions of business, being glass and soda ash, and reported to Mr. Feng. Mr. Feng was involved in the decision-making process of the two major business divisions. The division of responsibilities between the chairman and general managers has been clearly established and set out in writing under the Company’s articles of association. The Board will periodically review the merits and demerits of this management structure and will adopt such appropriate measures as may be necessary in the future, taking into account the nature and extent of the Group’s operations. The Board believed that this structure can provide the Group with strong and consistent leadership and allow for more effective and efficient business planning and decisions as well as execution of long-term business strategies.

In connection with IFC’s investment in the Company, the Company undertook to enhance the corporate governance of the Company and independence of the Board by, among others, separating the roles of chairman and CEO within twelve months of IFC’s investment, and limiting the representation of Mr. Feng Guangcheng’s family on the Board to Mr. Feng himself.

Two executive Directors, namely Ms. Xu Yujuan and Ms. Feng Luwen, who are respectively the wife and daughter of Mr. Feng Guangcheng, stepped down after their resignations were approved at the board meeting of the Company held on 29 August 2006, details of their resignations were set out in an announcement issued by the Company dated 29 August 2006.

Ms. Xu Yujuan also resigned as general manager of the Company, and Mr. Gao Huojin, who was the then Company’s deputy general manager and production manager, was appointed by the Board on 29 August 2006 to replace Ms. Xu as the new general manager of the Company. Details of Mr. Gao Huojin’s appointment were set out in an announcement issued by the Company dated 25 October 2006.

Another executive Director, namely Mr. Wang Yanchun, also resigned on 29 August 2006 due to personal reasons. Mr. Wang confirmed that he did not have any disagreement with the Board and there was nothing which need to be drawn to the shareholders’ attention with regard to his resignation. Details of Mr. Wang Yanchun’s resignation were set out in an announcement issued by the Company dated 29 August 2006.

On 29 August 2006, the Board also approved Mr. Gao Huojin and Mr. Shen Guangjun, to be appointed as new executive Directors. The appointments of Mr. Gao and Mr. Shen as new executive Directors were approved by the shareholders in a general meeting, which was held in October 2006. Mr. Shen resigned as supervisor on 29 August 2006 in connection with his proposed appointment as executive Director. Another supervisor, Mr. Chen Baijin also resigned as supervisor of the Company on 29 August 2006 for personal reasons.

DIRECTOR’S SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) set out in Appendix 10 to the Listing Rules. During the Year, upon specific enquiry made on all Directors, the Directors confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding Directors’ securities transactions.

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BOARD OF DIRECTORS

The Board is responsible to the shareholders of the Company for leadership and control of the Group and is collectively responsible for promoting the success of the Group and its business by directing and supervising the Group's affairs. It oversees the Group's strategic development, and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance in pursuit of the Group's strategic objectives. The Directors have access to appropriate business documents and information about the Group on a timely basis. The Directors can also have access to the management for enquiries and to obtain further information when required. All Directors and Board committees also have recourse to external legal counsel and other professionals for independent advice at the Group's expense when so required.

At the intervals between meetings, the senior management of the Company provides the Directors with information on a timely basis regarding the activities and developments in the businesses of the Group and meet with the non-executive Directors (including the independent non-executive Directors) to seek their views on business and operational matters of the Group.

The company secretary keeps detailed minutes of each meeting which are available to all Directors.

The full Board met 4 times during the Year at which the Directors considered and approved significant matters including, among other things, interim and annual results of the Group, changes in Board members and senior management and placement of shares to institutional investors. Other daily business matters the decision making of which are delegated to the senior management include, among other things, personnel changes in middle-level management, selection and appointment of external consultants and professional parties (except for external auditors) and selection of raw materials suppliers and service providers. The composition of the Board during the Year and attendance of individual Directors at the Board and Board Committee meetings are as follows:

Directors during the Year	Attendance / Number of Meetings		Remuneration Committee meetings
	Board meetings	Audit Committee meetings	
Executive Directors			
Mr. FENG Guangcheng	4/4	N/A	1/1
Ms. HONG Yumei	4/4	2/2 [#]	N/A
Mr. CHUNG Kwok Mo John	4/4	2/2 [#]	N/A
Mr. GAO Huojin (effective from 25 October 2006)	N/A	N/A	N/A
Mr. SHEN Guangjun (effective from 25 October 2006)	N/A	N/A	N/A
Ms. FENG Luwen (resigned with effect from 29 August 2006)	2/4	N/A	N/A
Ms. XU Yujuan (resigned with effect from 29 August 2006)	2/4	N/A	N/A
Mr. WANG Yanchun (resigned with effect from 29 August 2006)	2/4	N/A	N/A

Directors during the Year	Attendance / Number of Meetings		Remuneration Committee meetings
	Board meetings	Audit Committee meetings	
Non-executive Directors			
Mr. LIU Jianguo	3/4	N/A	N/A
Mr. SHI Guodong	2/4	N/A	N/A
Independent non-executive Directors			
Dr. LI Jun	2/4	2/2	N/A
Mr. WANG Yanmou	3/4	2/2	1/1
Mr. WANG Herong	3/4	2/2	N/A
Mr. SU Gongmei	3/4	2/2	1/1

In the capacity of Chief Financial Officer and the management of the Finance Department of the Company.

During the Year, Mr. Gao Huojin and Mr. Shen Guangjun were appointed as the Company's executive Directors who do not have any relationship with any other Directors, senior management, substantial shareholders (as defined in the Listing Rules), or controlling shareholders (as defined in the Listing Rules) of the Company. Mr. Gao and Mr. Shen also do not have any interests in shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance. All Directors do not have any family relationships with each other.

Currently, there are 11 Board members, of whom five are executive Directors, two are non-executive Directors and four are independent non-executive Directors with at least one independent non-executive Director having appropriate professional qualification, or accounting or related financial management expertise. The Company increased the number of independent non-executive Directors to not less than one-third of the total number of Directors of the Company. The Company has received from each independent non-executive Directors an annual confirmation of his independence, and the Board considers them to be independent under the guidelines set out in rule 3.13 of the Listing Rules.

Biographies and responsibilities of the Directors and senior management are detailed on pages 16 to 18 of this annual report, while the terms of their appointments are stated on page 21.

NOMINATION OF DIRECTORS

The Company has not established any nomination committee and the Board is responsible for identifying suitable candidates for the members of the Board when there is a vacancy or an additional Director is considered necessary. Normally, the chairman of the Board recommends the suitable candidates to each member of the Board. The members of the Board will then review the qualifications of the relevant candidates for determining the suitability to the Group on the basis of his or her qualifications, experiences and background. Suitable candidates will be recommended by the Board to the shareholders of the Company for approval at the general meeting.

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During the Year, there was only one meeting held by the Board (which was attended by Mr. Feng Guangcheng, Ms. Hong Yumei, Mr. Chung Kwok Mo John, Mr. Liu Jianguo, Mr. Shi Guodong, Dr. Li Jun, Mr. Wang Yanmou, Mr. Wang Herong and Mr. Su Gongmei) in relation to the nomination of Directors. That meeting was held on 29 August 2006 in which Mr. Gao Huojin and Mr. Shen Guangjun were nominated by the chairman of the Board to be appointed as executive Directors (both Mr. Gao and Mr. Shen were appointed as the Company's executive Directors with effect from the close of the extraordinary general meeting of the Company held on 25 October 2006).

Each of the existing executive Directors has entered into a service agreement and each of the existing non-executive Directors and independent non-executive Directors has entered into a letter of appointment respectively with the Company which will all expire on the date of the annual general meeting of the Company to be held in the year 2007.

In a full Board meeting held on 27 April 2007, the Board has discussed and determined a list of candidates for the members of the Board (including the existing Directors) to be recommended to the shareholders of the Company for approval of the annual general meeting to be held in the year 2007, when all the existing Directors will be retired for re-election. A separate circular with details of the nomination of Directors will be sent to the shareholders of the Company in due course.

REMUNERATION COMMITTEE

On 30 August 2005, the Board established a remuneration committee with specific written terms of reference in accordance with the Code Provision B.1.3 in Appendix 14 to the Listing Rules which deal with the authorities and duties of the remuneration committee. The remuneration committee assists the Board in reviewing and determining the framework or broad policy for the remuneration of executive Directors and overseeing any major changes in employee benefit structures.

During the Year, the remuneration committee consisted of three members: executive Director Mr. Feng Guangcheng (committee chairman), independent non-executive Director Mr. Wang Yanmou, and independent non-executive Director Mr. Su Gongmei. Ms Tao Haiping, who was and still is a joint company secretary of the Company, also was the secretary of the remuneration committee. The composition of the remuneration committee remained unchanged during 2006 since the remuneration committee's establishment. One meeting was held by the remuneration committee during the Year to make recommendation to the Board in relation to the remuneration of the non-executive Directors and independent non-executive Directors, and the meeting was attended by all its members.

AUDIT COMMITTEE

The Board has established an audit committee since November 2001 which acts as an important link between the Board and the Group's auditors over the matters of the Group's audit. The audit committee also monitors the effectiveness of external audit and is responsible for reviewing the mechanism of internal controls and risk evaluation.

The previous terms of reference which described the authority and duties of the audit committee were replaced by the new terms of reference with effect from 31 August 2005. The new terms of reference adopted certain changes in accordance with the Code.

Under its terms of reference, the audit committee shall meet at least twice annually to review the accounting principles and practices adopted by the Group, discuss internal control and financial reporting matters including the interim and annual financial statements before submission to the Board for approval. The external auditors, Chief Financial Officer and the management of Finance Department of the Company attended the audit committee meetings to answer questions on the reports of their work. Two meetings were held during the financial year of

2006. With respect to the results of the Group for the Year, the audit committee reviewed with senior management and the auditors of the Company their respective audit findings, the accounting principles and practices adopted by the Group and internal control, risk management and financial reporting matters. This review by the audit committee included an appraisal of the integrity of the financial statements of the Group and the annual report and accounts of the Company. The audit committee has also reviewed the external auditors' remuneration. There was no disagreement between the Board and the audit committee on the selection and appointment of the external auditors.

The audit committee reports its work, findings and recommendations to the Board after each meeting.

During the Year, the audit committee comprised four independent non-executive Directors: Mr. Wang Yanmou (Committee Chairman), Dr. Li Jun, Mr. Wang Herong and Mr. Su Gongmei. Mr. Wang Herong is a certified public accountant. Both Mr. Wang Yanmou and Mr. Su Gongmei have extensive knowledge and experience in the construction materials industry.

AUDITORS' REMUNERATION

During the Year, the fee paid and payable to the Group's external auditors, PricewaterhouseCoopers, for the annual audit services provided to the Group was RMB3,673,000. The Group did not engage the external auditors for any non-audit services.

DIRECTORS' AND AUDITORS' ACKNOWLEDGEMENT

All Directors acknowledge their responsibility for preparing the accounts for the Year.

The external auditors of the Company acknowledge their reporting responsibilities in the auditors' report on the financial statements for the Year.

INTERNAL CONTROLS

The Board has overall responsibility for the system of internal controls of the Company and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders of the Company and the Group's assets.

The Board has conducted a review of the effectiveness of the Group's internal control system, covering its financial and operational functions.

GOING CONCERN ASSUMPTION

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). One underlying assumption under HKFRS is that the financial statements are prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future.

As at 31 December 2006, the Group had net current liabilities of approximately RMB1,786 million. This condition indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Nevertheless, the Directors adopted the going concern basis in the preparation of the financial statements of the Company and the Group based on the assumptions that the Group is able to obtain ongoing support from the Group's bankers for extending its short-term loans upon maturity; obtaining long-term financing facilities to re-finance its short-term loans; remediating its breaches of certain loan covenants; and deriving adequate operating cash flow from its existing operations and new products to be produced as set forth in Note 2 "Basis of Preparation – Going Concern Assumption" to the consolidated financial statements in this annual report.